Investor Presentation

State of California

Economic Recovery Bonds

Disclaimer

None of the information contained in this presentation constitutes, or is intended to constitute, an offering of the Economic Recovery Bonds of the State of California described herein, or any other securities of the State of California or any of its instrumentalities. Information in this presentation is not intended to be the basis of, and should not be relied upon in making, an investment in the Economic Recovery Bonds of the State of California described herein, or any other securities of the State of California or any instrumentality thereof. The offering of the bonds described herein can only be made by means of a Preliminary Official Statement, which should be read in its entirety.

Introduction

Presentation Speakers

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Overview of the Economic Recovery Bonds

On March 2, 2004, California voters approved Proposition 57, a bond act authorizing the issuance of up to $15 billion of Economic Recovery Bonds ("ERBs" or "Bonds") to fund the Accumulated State Budget Deficit

- The Governor has requested $12.254 billion of ERB proceeds by June 30, 2004
- To repay the ERBs, State law imposes a new quarter-cent state sales tax beginning July 1, 2004, and requires these collections to be deposited into the Fiscal Recovery Fund ("Fund")
  - The Bond Act irrevocably pledges the sales tax revenues in the Fund to the payment of bond debt service and certain other bond-related obligations
  - The Bond Act provides that payments from the Fund for all authorized purposes are continuously appropriated
- In the Bond Act, the State also has pledged and agreed with Bondholders that it will not reduce the sales tax rate securing these bonds as long as Bonds are outstanding
- The Bonds also are general obligations, secured by a pledge of the State's full faith and credit and payable from a continuous appropriation of money from the State's General Fund in the event moneys in the Fiscal Recovery Fund are insufficient
- Uninsured Bonds are rated Aa3 by Moody's, AA- by Standard & Poor's and A+ by Fitch

Financing Security Features

A broad, resilient sales tax base, strong statutory protections, and a conservatively structured repayment obligation provide excellent security for the ERBs

- **Strong Sales Tax Base**
  - California's sales tax has the nation's broadest base and a history of consistent growth. Its strong historical performance underscores the predictability of future collections
- **Additional Statutory Protections**
  - The quarter-cent sales tax is not part of the State's General Fund, is not a Borrowable Resource and is continuously appropriated only for authorized purposes until the ERBs are fully retired
- **Conservative Debt Structure**
  - Dedication of the entire quarter-cent sales tax to ERBs permits a bond structure with ample margins to meet scheduled debt service and expectations of substantial annual excess for accelerated ERB retirement

California’s Sales and Use Tax

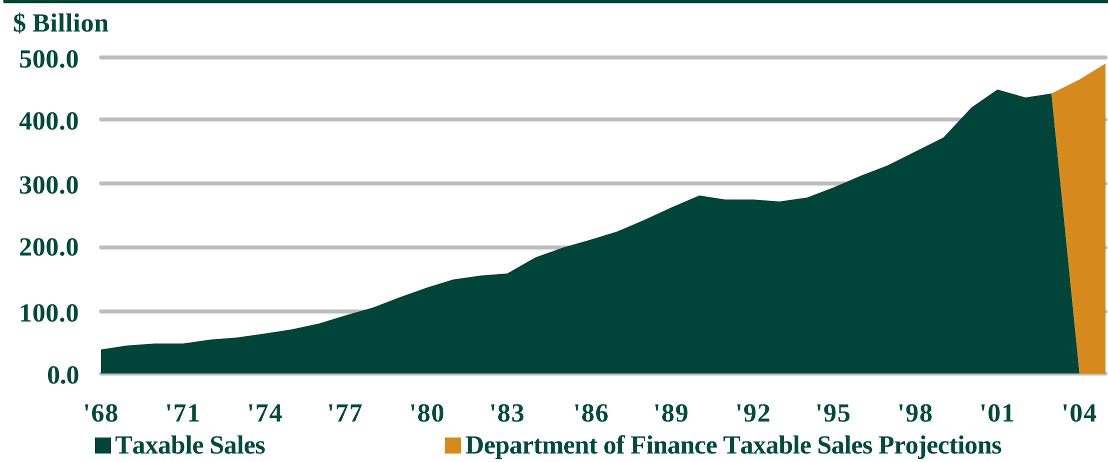
California’s vibrant, broad-based economy directly benefits ERB Bondholders

- **California has the largest, broadest sales tax base in the country**
  - California’s population of 35.9 million residents represents 12% of U.S. population and continues to grow at a higher rate than the nation
  - Diversified sources of sales tax revenues: Distinct sub-regional economies and a statewide economic composition that closely mirrors that of the nation
  - The importance of the sales tax to the State’s General Fund revenues (estimated to be 33% in FY 2005) ensures that the sales tax base will remain broad
- **California has an efficient, stable sales and use tax collection system**
  - The ERBs’ quarter-cent sales tax will be collected by the State Board of Equalization along with other statewide and local sales taxes through a well-established collection system that has a history of efficiency with minimal delinquency
- **California’s 53-year history of sales taxes demonstrates long-term growth and only a small degree of volatility**
  - 5.4% average annual growth from FY 1984 through 2003
  - Over the past 34 years, taxable sales experienced annual growth in all but 4 years:
    - The largest single year decline was 2.34% (FY 2002)
    - The largest cumulative decline was 3.11% (FY 1991-1993)

California’s Strong Sales Tax Base

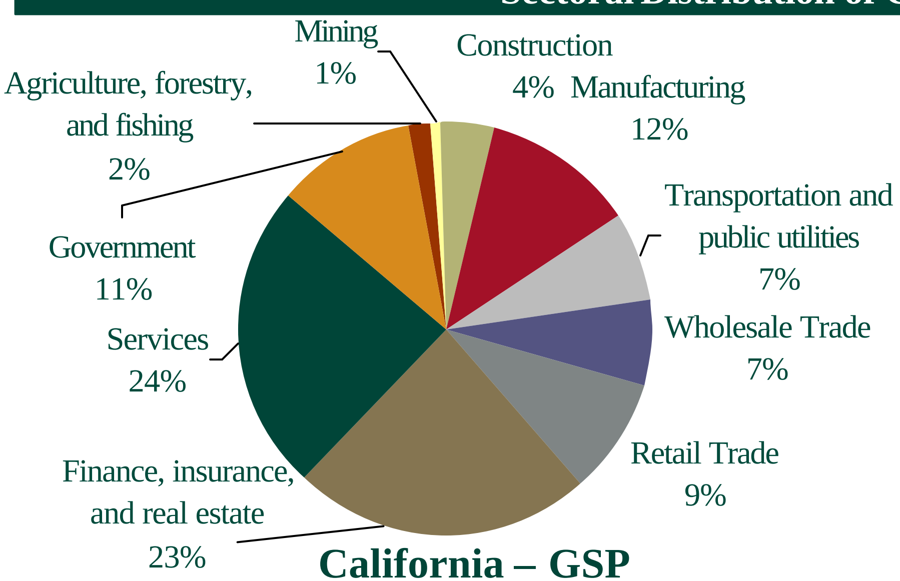
Population growth and a large, diverse economy drive steady sales tax growth

Taxable Sales Trends Fiscal Year 1968 to 2005

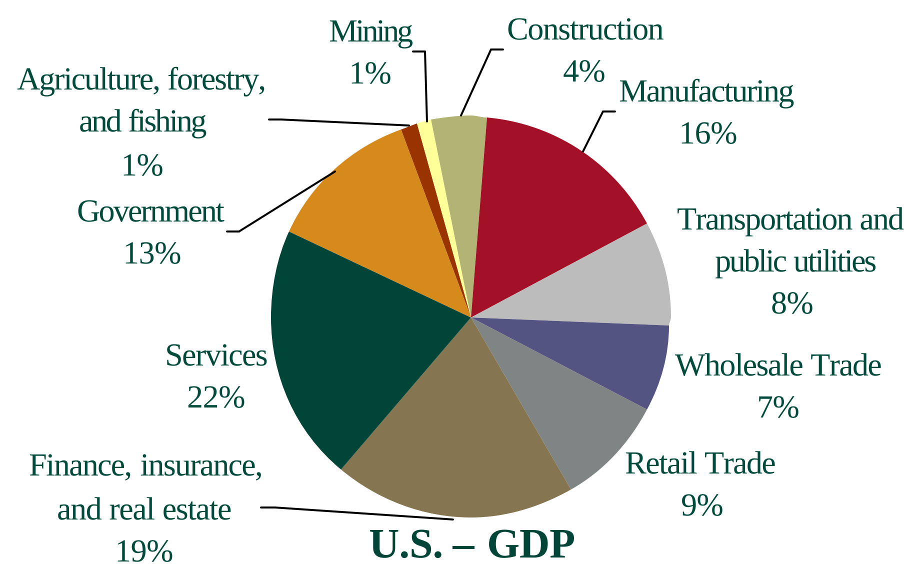


- California’s stable taxable sales growth is partially driven by population growth rates which have been consistently above the U.S. rates
  - Average annual population growth of over 469,000 from 1990 to 2002

Sectoral Distribution of California and U.S. Economy



California – GSP



U.S. – GDP

Economic Diversity and Stable Taxable Sales

Economic and geographic diversity reduces the volatility of the state sales tax

- 35.9 million people distributed among several major regions with diverse economic structures reduces recessionary vulnerability. Declines in taxable sales in one regional economy are mitigated by growth in other regions
- No bordering retail centers compete with California’s retail sales

$2.8 billion growth in three Southern California counties

Santa Clara County

$7.6 billion decline | **$8.5 billion run-up preceded decline**

Taxable Sales Collection by Counties*

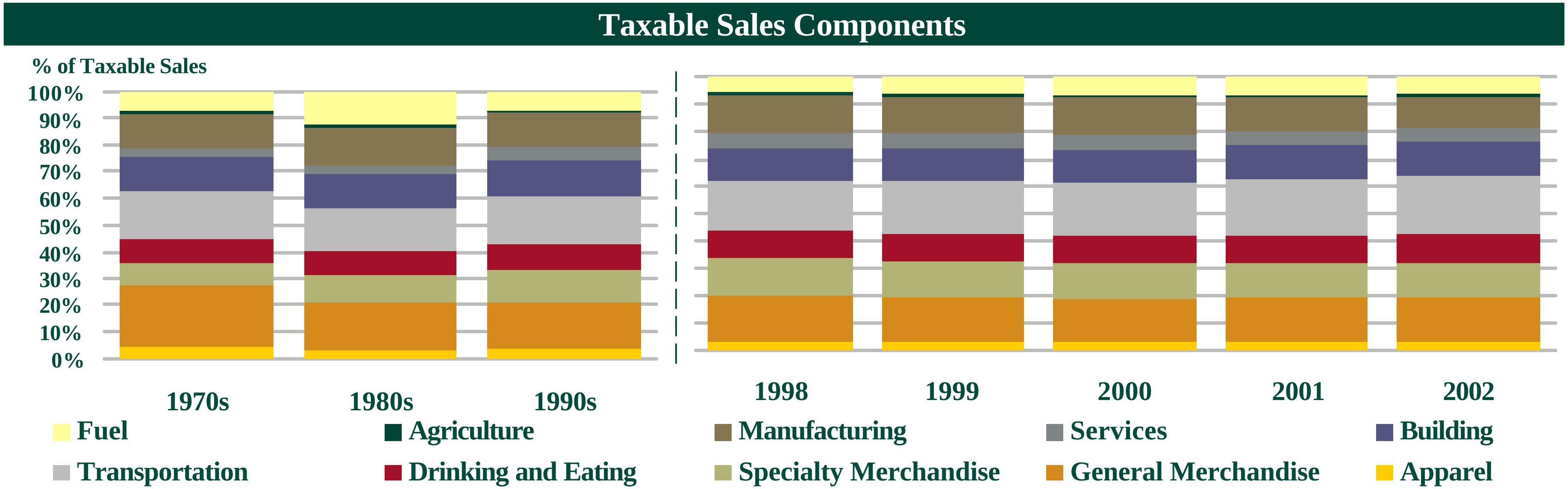
Rank	County	2002	2001	2000	1999
1	Los Angeles	$107,238,290	$107,570,926	$102,742,762	$93,051,927
2	Orange	44,207,950	45,057,850	42,553,609	38,437,228
3	San Diego	37,981,561	37,093,272	34,586,860	30,957,032
4	Santa Clara	28,974,350	36,597,963	33,843,217	28,140,513
5	Alameda	21,696,871	23,817,120	22,328,105	19,641,497
6	San Bernardino	20,050,622	19,376,056	17,885,700	15,852,872
7	Riverside	18,774,610	17,585,745	16,131,902	14,031,503
8	Sacramento	17,377,311	16,994,534	15,926,356	14,026,269
9	San Mateo	11,967,932	13,961,577	13,175,535	11,295,693
10	San Francisco	11,684,354	13,721,570	13,403,319	11,556,144
	Top 10 County Total	$319,953,851	$331,776,613	$312,577,365	$276,990,678
	Total Taxable Sales	$436,998,016	$447,476,655	$420,352,353	$372,994,032

* *All denominations in thousands of dollars. Data from State of California Board of Equalization*

Taxable Sales by Sector

Taxable sales distribution across 10 major sectors reduces concentration risk

- Since 1990, no single sector has been responsible for more than 22% of taxable sales and each sector's share of total taxable sales has been relatively stable



- Each sector contains a large number of retailers, with each sector ranging from over 5,000 (agriculture) to over 437,000 retailers (specialty merchandise)
- Approximately 85,000 firms account for 90% of taxable sales
  – A large company with multiple locations throughout the State (e.g., Best Buy, Target) may have multiple retailers but is counted as one firm
- There are nearly one million licensed retailers in the State

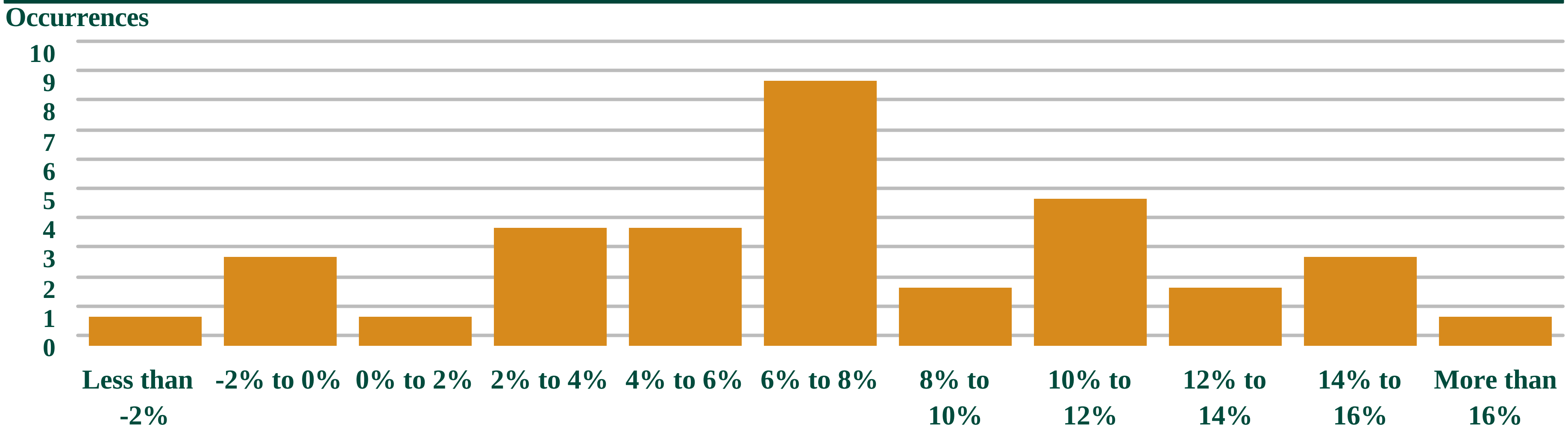
Historical Taxable Sales Growth Rates

- Since 1969, annual taxable sales have increased 8% or more 13 times and have declined only 4 times
  - Maximum single year decline of 2.34% occurred in FY 2002. Recovered to 99.11% of FY 2001 level in FY 2003
  - Largest and longest decline of 3.11% from FY 1991 through 1993. Recovered to 99.22% of FY 1990 level in FY 1994

Fiscal Year Taxable Sales Growth Rate Data*	
Mean	7.26%
Median	6.52%
Maximum	16.61%
Minimum	-2.34%
5-Year Average (1999-2003)	4.96%
10-Year Average (1994-2003)	5.12%
20-Year Average (1984-2003)	5.38%
30-Year Average (1974-2003)	7.11%

* *Fiscal years 1969 to 2003*

Fiscal Year Annual Taxable Sales Growth Rates 1968 to 2003



E-Commerce and Sales Taxes

E-commerce is not expected to have a significant impact on sales taxes

- Loss of sales tax revenue due to e-commerce has been relatively small
  - Estimated loss between 2% and 4% in 2003
- Revenue losses due to e-commerce may be overstated, and must be adjusted for:
  - Sales of exempt consumer products
  - Displaced catalog and phone sales
- Streamlined Sales Tax Project (SSTP) – California has joined a nation wide effort among states to create more uniform sales and use tax laws and to facilitate retailers to voluntarily collect and remit sales and use taxes. Should e-commerce significantly erode sales tax revenues, a coordinated response from the states such as the SSTP would be possible

2001 University of Tennessee Study
California Revenue Loss as % of Total State Taxes

	Total E-Commerce Loss	New E-Commerce Loss
2001	1.73%	0.92%
2006	4.69%	2.51%
2011	4.52%	2.40%

2001 Adjusted "New" E-Commerce Revenue Loss*

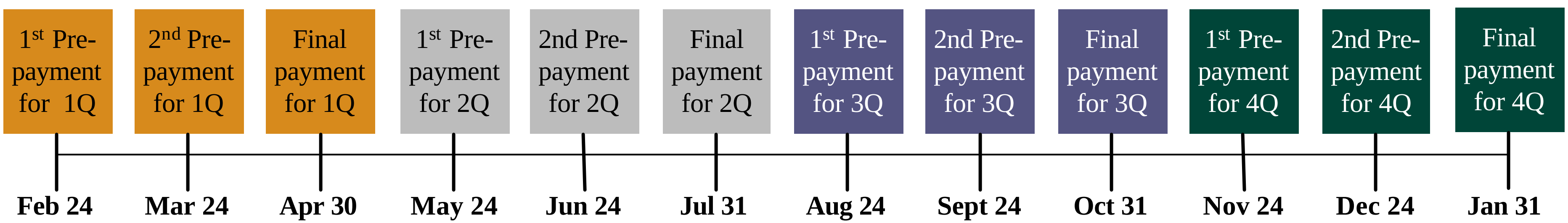
Gross Loss to State	$288 million
Mail Order Business	- $195 million
Adjusted "New" E-Commerce Loss	$93 million

* *Based on BOE estimates*

Sales Tax Collection and Administration

Sales taxes are collected and administered by an efficient existing system

- The State Board of Equalization (BOE) is responsible for the collection and administration of state and local sales taxes, including the new quarter-cent sales tax for the ERBs
- In each quarter, large retailers make monthly payments to the BOE; estimated prepayments in the first two months and a final “true up” payment on the last month of the quarter

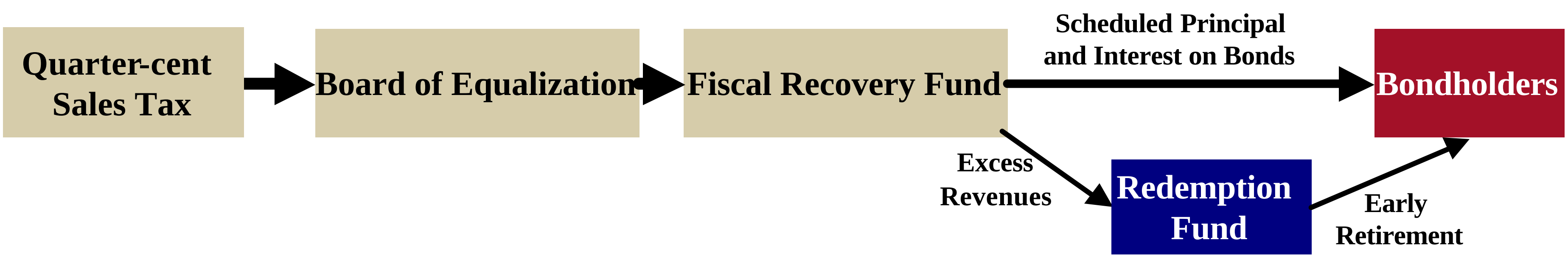


- Since July 2002, 70.0% of sales tax collections are done automatically through electronic funds transfer (EFT), ensuring a stable collection stream
- Sales tax delinquency has been minimal, and a majority of the delinquent receipts are ultimately collected through the BOE’s enforcement mechanisms
- The BOE has various enforcement measures including liens on personal property, levies on bank accounts or wages, “till-tap” or “keeper” civil warrants, and criminal prosecution

Timely Availability of the Quarter-Cent Sales Tax Revenues

Sales tax administration ensures continuous receipt of revenues

- The flow of sales tax revenues is a function of collection patterns, statutory requirements and practices agreed to among state agencies
- Receipts will be deposited into the Fiscal Recovery Fund daily
- Under the Trust Indenture, the Trust accounts will reside in the Fiscal Recovery Fund and required payments will be made directly from the Fund



Security and Coverage

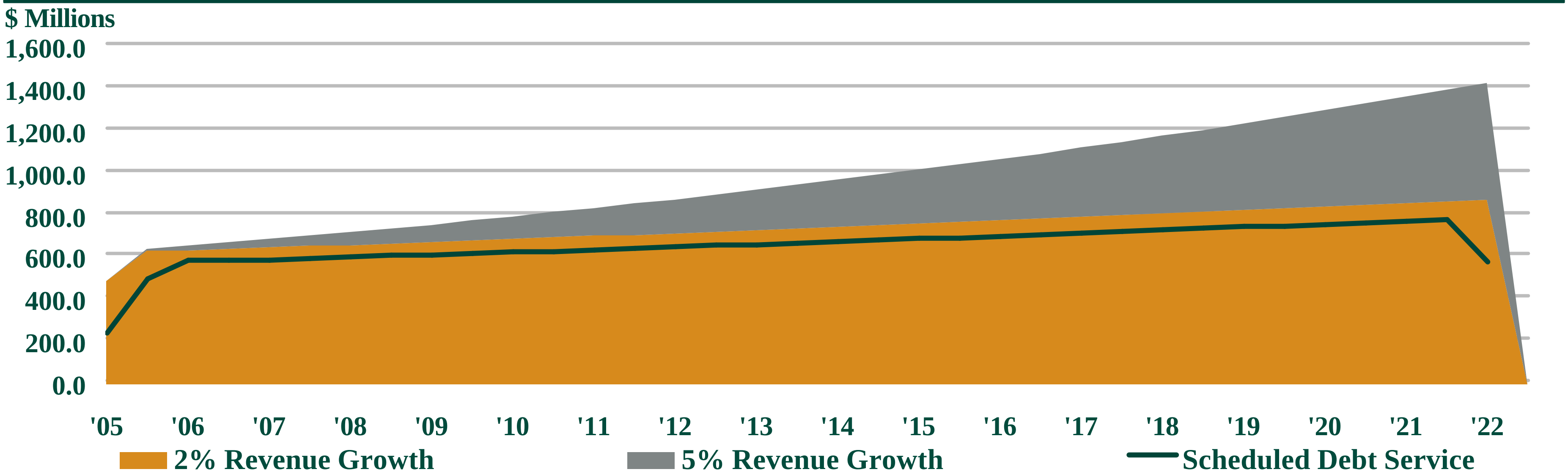
The Indenture is designed to provide strong Bondholder protection and insulation from any potential revenue stress

- Each series of parity Bonds must have annual projected debt service coverage of 1.15x through and including July 1, 2008, and 1.10x coverage thereafter
- The Indenture establishes a Coverage Account, which is available only for shortfalls in the payment of Interest, Principal, and recurring ancillary obligations, or for the final redemption of the Bonds
- The Coverage Account Requirement for each year will be 25% of that fiscal year's projected debt service
  - For Requirement calculation purposes, debt service on variable rate debt will be projected at an assumed rate equal to the higher of:
    - The prior 12-month average plus 1% or 125% of the highest average rate during the six most recent months
  - The initial requirement for the Coverage Account is projected to be fully funded from revenues by December 31, 2004
- Effective coverage from projected revenues and available Coverage Account balance cover annual projected debt service by 1.35x through and including 7/1/08 and 1.40x thereafter

Conservative Structuring Assumptions

The key assumptions of the proposed bond structure are conservative

Projected Revenue Growth and Debt Service



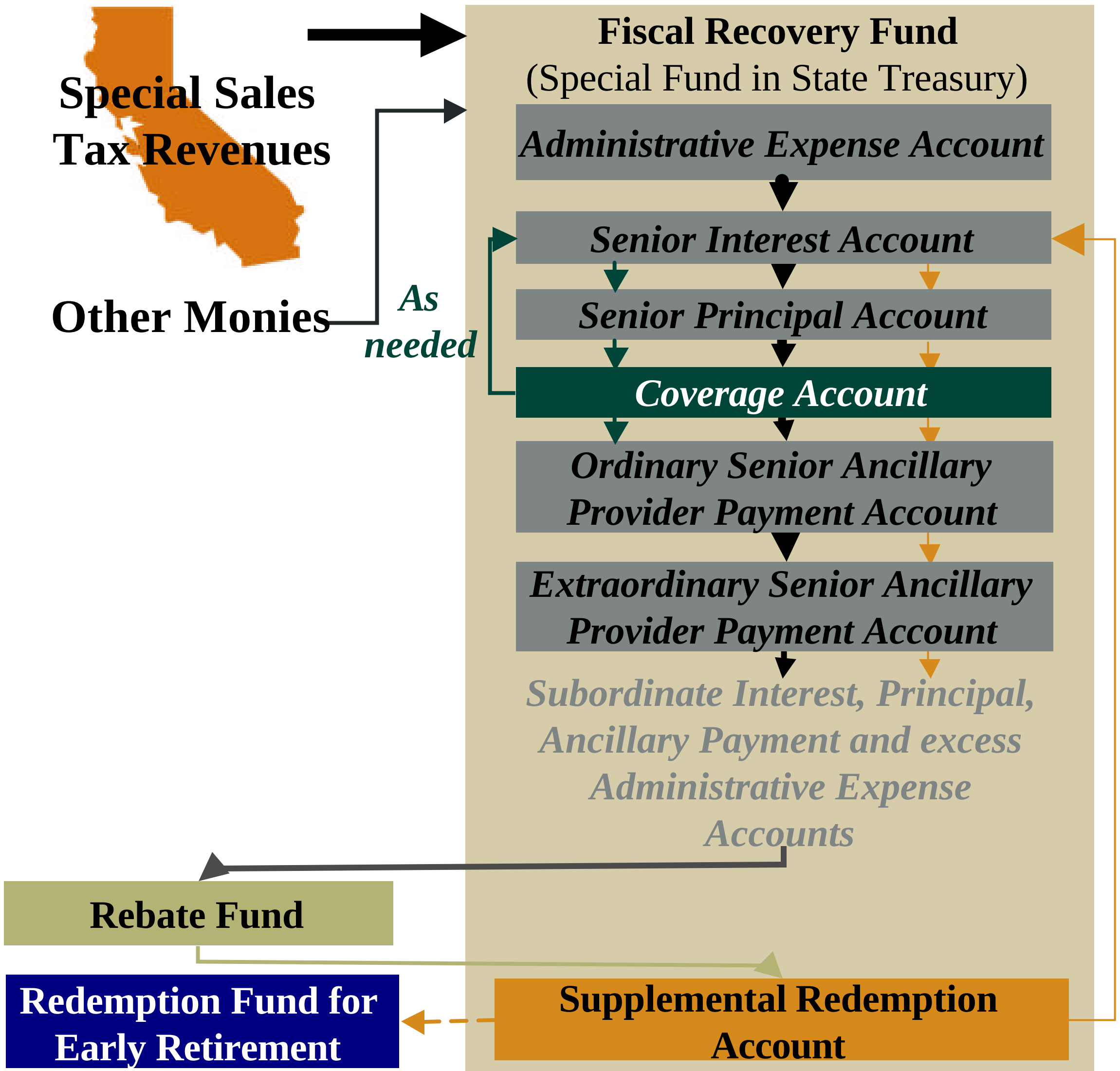
- FY 2005 revenues are based on FY 2004 estimated revenues plus 2% growth
- Sales tax growth is assumed at 2% per year thereafter, while historical growth rates have been much higher. Debt service will grow at 2% beginning in FY 2007
- To protect against interest rate risk, variable rate will be assumed at 3.33%*, the 15-year average of BMA

Historical Average Annual Taxable Sales Growth Rates		
5-Year	(FY 1999-2003)	4.96%
10-Year	(FY 1994-2003)	5.12%
15-Year	(FY 1989-2003)	4.22%
20-Year	(FY 1984-2003)	5.38%

**Does not include credit enhancement and remarketing fees*

Flow of Funds of the Economic Recovery Bonds

The Indenture provides for a semi-annual sequential flow of funds

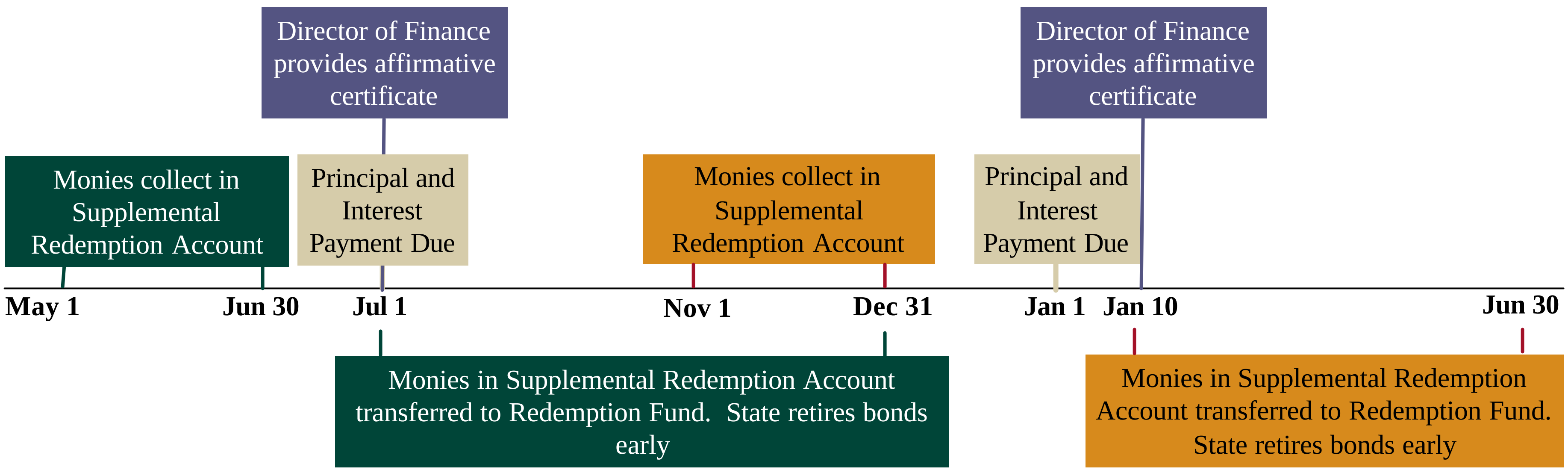


- Monies flow in the order of priority; each account is filled to the required amount before monies flow to the next account
- Monies in the Supplemental Redemption Account not transferred to the Redemption Fund can be used to make up for shortfalls

Early Retirement of Bonds

- After all semi-annual requirements are met, excess monies will be used for early debt retirement
- When the Director of Finance provides an affirmative certificate following the releases of the May Revision and the Governor's Budget in January that estimated quarter-cent sales tax revenues will be sufficient to pay the upcoming period's debt service and expenses, monies in the Supplemental Redemption Account will be transferred to the Redemption Fund
- Once monies are in the Redemption Fund, they will be used for early debt retirement
  - Redemption/Defeasance strategies will be determined by the Treasurer or set in supplemental indentures

Early Retirement Scenario Timeline



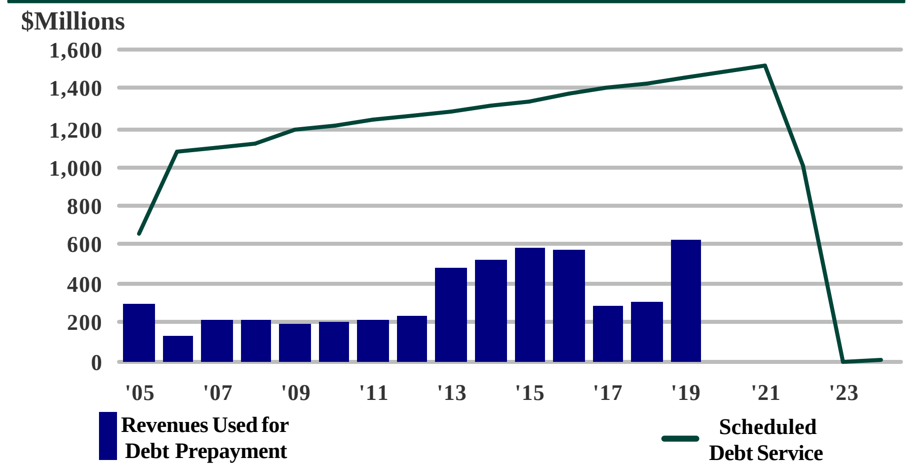
Full Authorization Issuance Scenario

Assuming the issuance of the entire $15 billion ERB authorization over time and 2% annual revenue growth, combined excess revenues and Coverage Account balance would result in future annual coverage of 1.43x to 2.03x

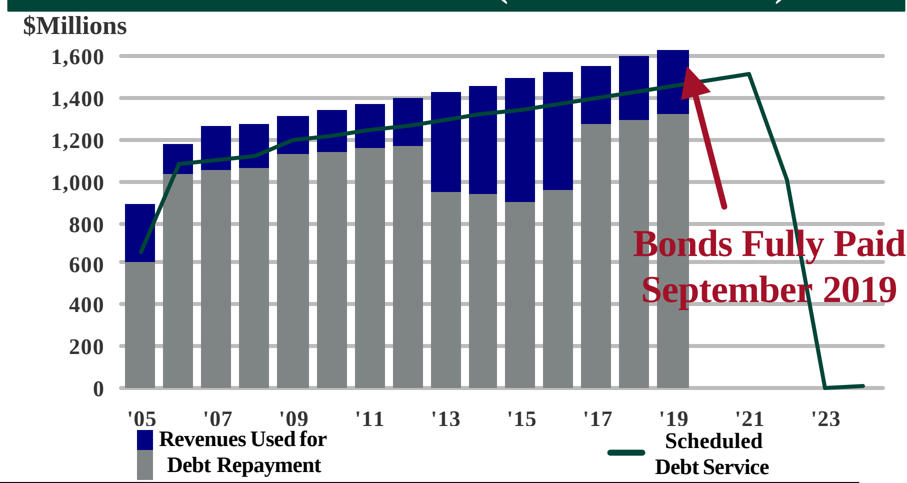
Annual Coverage Factors

Payment Date	Revenue	+ Coverage Account
7/1/2005	1.88x	1.88x
7/1/2006	1.22x	1.43x
7/1/2007	1.23x	1.49x
7/1/2007	1.24x	1.50x
7/1/2009	1.19x	1.46x
7/1/2010	1.20x	1.46x
7/1/2011	1.21x	1.47x
7/1/2012	1.22x	1.48x
7/1/2013	1.57x	1.90x
7/1/2014	1.58x	1.92x
7/1/2015	1.68x	2.03x
7/1/2016	1.62x	1.96x
7/1/2017	1.24x	1.50x
7/1/2018	1.24x	1.50x
7/1/2019	0.76x	1.00x
7/1/2020		

Full Issuance Scenario (Pre-payment)



Full Issuance Scenario (Debt Retirement)



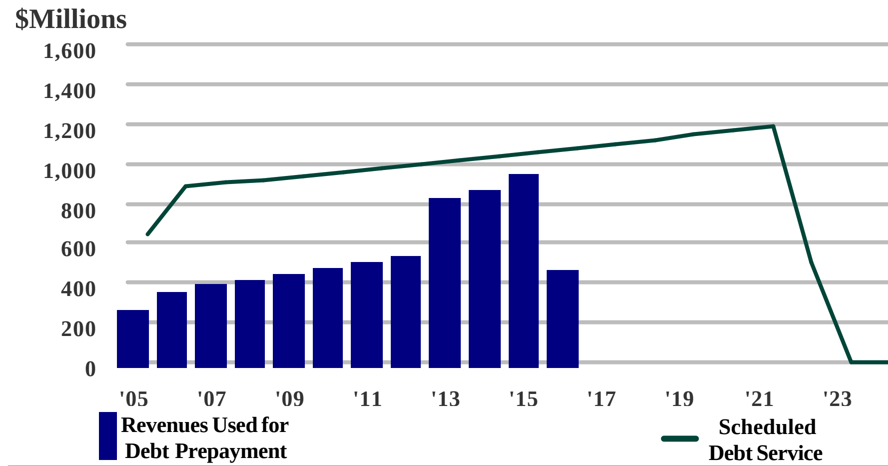
2004 Issuance Scenario

Assuming an issuance resulting in $12.3 billion of net proceeds and 2% annual revenue growth, future annual coverage will be 1.75x to 3.25x

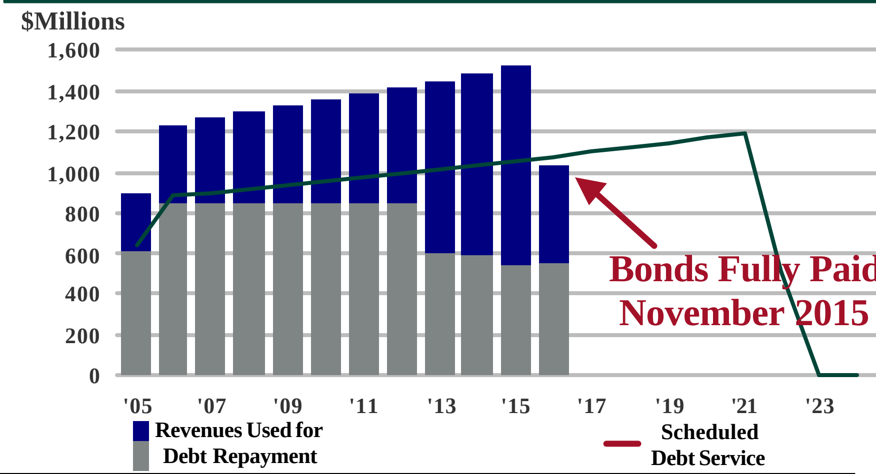
Annual Coverage Factors

Payment Date	Revenue	+ Coverage Account
7/1/2005	1.88x	1.88x
7/1/2006	1.50x	1.75x
7/1/2007	1.52x	1.78x
7/1/2007	1.55x	1.81x
7/1/2009	1.58x	1.85x
7/1/2010	1.62x	1.89x
7/1/2011	1.65x	1.92x
7/1/2012	1.68x	1.95x
7/1/2013	2.45x	2.83x
7/1/2014	2.53x	2.92x
7/1/2015	2.83x	3.25x
7/1/2016	0.58x	1.00x
7/1/2017		
7/1/2018		
7/1/2019		
7/1/2020		

2004 Issuance Scenario (Pre-payment)



2004 Issuance Scenario (Debt Retirement)



Budget Stabilization Account

- Article XVI, Section 20 of the State Constitution enacted in March 2004 (Proposition 58) creates the Budget Stabilization Account in the General Fund
  - The Controller shall transfer from the General Fund to the Budget Stabilization Account (BSA):

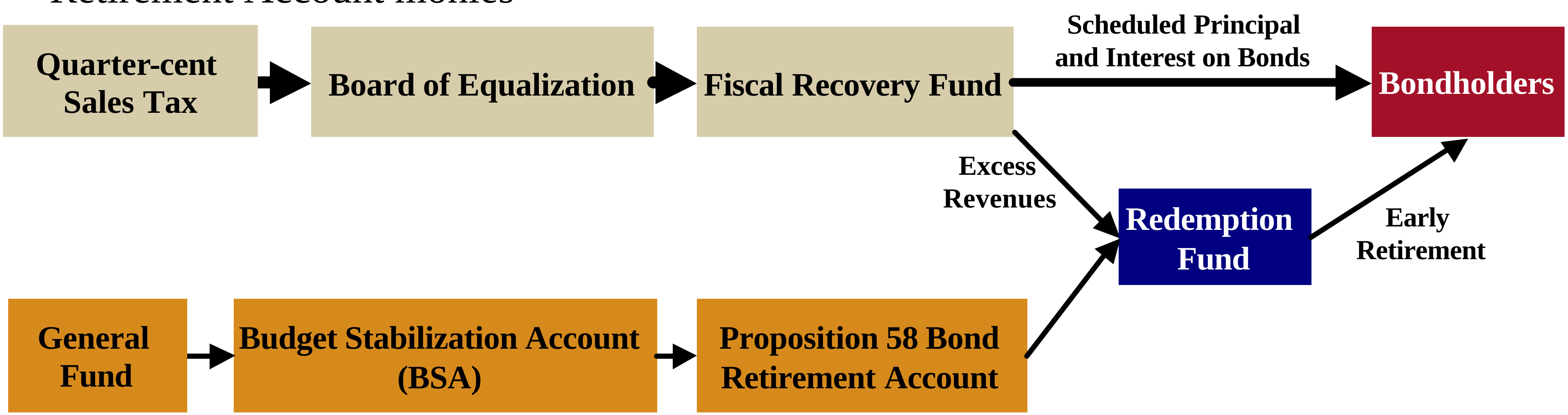
Transfers to the Budget Stabilization Account		
Transfer Due Date	**Transfer Amount Formula**	**Available for Redemption Fund***
By September 30, 2006	◆ 1% of the estimated amount of General Fund revenues for FY 2007	◆ $427.0 million*
By September 30, 2007	◆ 2% of the estimated amount of General Fund revenues for FY 2008	◆ $907.0 million*
By September 30, 2008 and annually thereafter	◆ 3% of the estimated amount of General Fund revenues for the then current fiscal year	◆ $1.44 billion (9/30/08), $1.53 billion (9/30/09) and $698 million (9/30/10)*

- The transfer of funds from the General Fund to the BSA shall not be required in any fiscal year if resulting balance in the BSA will exceed the greater of 5% of the General Fund revenue estimate provided in the budget bill for that fiscal year or $8 billion
- Transfer of funds for a fiscal year can be suspended or reduced by an executive order of the Governor no later than June 1 of the preceding fiscal year. Thus, there can be no assurance as to the level of revenues actually transferred to the Budget Stabilization Account

** Based on Legislative Analyst's Office's Estimates as of December 2003*

Flow of Funds: Deficit Recovery Bond Retirement Sinking Fund Subaccount

- Article XVI, Section 20 of the State Constitution also provides that 50% of each year's transfer to the Budget Stabilization Account (up to an aggregate amount of $5 billion) will be transferred to the Deficit Recovery Bond Retirement Sinking Fund Subaccount (Proposition 58 Bond Retirement Account)
- Monies in the Proposition 58 Bond Retirement Account are continuously appropriated for retiring debt at a time and in a manner deemed appropriate by the Treasurer
- The Statute provides that monies in the Proposition 58 Bond Retirement Account be deposited directly in the Redemption Fund and do not go through the flow of funds
- Scheduled Bond Amortization does not assume any redemption from Proposition 58 Bond Retirement Account monies



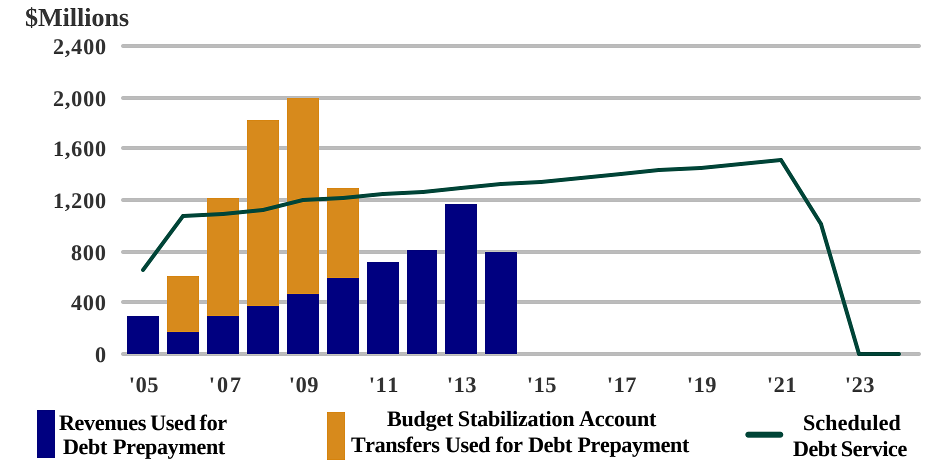
Budget Stabilization Account Redemption Scenario

Assuming a $15 billion issuance, 5% annual revenue growth, and the Proposition 58 transfers, combined excess revenues, Coverage Account balance, and annual Budget Stabilization Account transfers will result in full debt retirement by October 2013

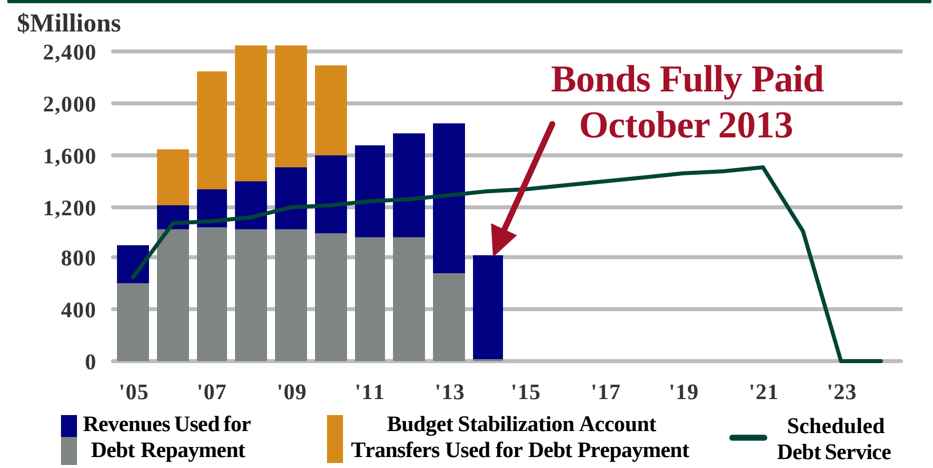
Annual Coverage Factors

Payment Date	Revenue	+ Coverage Account
7/1/2005	1.88x	1.88x
7/1/2006	1.26x	1.47x
7/1/2007	1.32x	1.58x
7/1/2007	1.41x	1.68x
7/1/2009	1.46x	1.74x
7/1/2010	1.60x	1.88x
7/1/2011	1.73x	2.01x
7/1/2012	1.85x	2.12x
7/1/2013	3.44x	3.92x
7/1/2014	0.39x	1.02x
7/1/2015		
7/1/2016		
7/1/2017		
7/1/2018		
7/1/2019		
7/1/2020		

Budget Stabilization Account Scenario (Pre-payment)



Budget Stabilization Account Scenario (Debt Retirement)



Conclusion

The Economic Recovery Bonds offer a strong and unique investment opportunity

- The statutory protections are extremely strong, including:
  - Full dedication of the new statewide quarter-cent sales tax
  - Irrevocable pledge of Fiscal Recovery Fund
  - Continuous appropriation for all required payments
  - Pledge not to reduce the quarter-cent sales tax
  - Required insulation from the State’s General Fund
- The California sales tax provides a superior repayment source
- Indenture protections exceed those required to meet any foreseeable stress and the most stringent rating criteria
- While the ERBs are supported by a full faith and credit pledge, there is no expectation General Fund monies ever will be required to meet Bond obligations
- Excellent ratings: Aa3, AA-, A+

Time Schedule

May						
S	M	T	W	TH	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

June						
S	M	T	W	TH	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

Date	Event
May 3 and 4, 2004	◆ Retail Order Period
May 5, 2004	◆ Institutional Pricing
May 11, 2004	◆ Close Fixed-Rate Bonds
May 24 through June 15, 2004	◆ Price and Close Variable Rate Bonds

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